

Message Text

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12

ACTION EB-11

INFO OCT-01 EUR-25 EA-11 ISO-00 TRSE-00 OMB-01 SEC-03

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FM AMEMBASSY TOKYO

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INFO AMEMBASSY BERN

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AMEMBASSY BRUSSELS

AMEMBASSY THE HAGUE

AMCONSUL HONG KONG

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION USEC BRUSSELS

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SUBJECT: REGULATION OF FOREIGN BROKERS AND UNDERWRITERS IN
JAPAN

REF: STATE 079749

1. REPLY TO REFTEL BEING TRANSMITTED SEPARATELY IN
TOKYO A-345, DATED 5/23/74.

2. FOLLOWING IS SUMMARY OF TOKYO A-345.

3. BEGIN UNCLASSIFIED. IN SEPTEMBER 1971, THE GOJ
REVISED ITS SECURITIES AND EXCHANGE LAW TO PERMIT FOREIGN
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BROKERS AND UNDERWRITERS TO ESTABLISH OFFICES IN JAPAN.

SINCE THAT TIME, SOME 42 FOREIGN FIRMS HAVE OPENED REPRESENTATIVE OFFICES IN JAPAN, INCLUDING 15 AMERICAN BROKERS AND INVESTMENT BANKERS. THE PRIMARY FUNCTION OF THESE REPRESENTATIVE OFFICES HAS BEEN TO FACILITATE PLACEMENT OF FOREIGN DEBT SECURITIES WITH JAPANESE LENDERS AND, MORE RECENTLY, TO FACILITATE ARRANGEMENTS FOR THE ISSUANCE AND PLACEMENT OF JAPANESE BONDS ABROAD.

4. THE FIRST FOREIGN BRANCH OFFICE WAS AUTHORIZED BY MOF IN JUNE 1972. AT THAT TIME, MERRILL LYNCH, PIERCE, FENNER AND SMITH BECAME THE FIRST FOREIGN SECURITIES FIRM TO OPERATE A FULLY LICENSED BRANCH IN TOKYO. ONLY ONE OTHER FOREIGN FIRM, LOEB RHOADES SECURITIES CORPORATION, HAS RECEIVED MINISTRY OF FINANCE (MOF) APPROVAL IN 1974 TO ESTABLISH A BRANCH. DUE TO THE VIRTUAL DOMINANCE OF THE BIG FOUR JAPANESE SECURITIES FIRMS (NOMURA, NIKKO, DAIWA AND YAMAICHI), IT IS UNLIKELY THAT THE MARKET SHARE OF DOMESTIC BUSINESS DONE BY FOREIGN SECURITIES FIRMS WILL GROW RAPIDLY. HOWEVER, SEVERAL FOREIGN FIRMS FEEL THAT OVER THE LONG RUN, WITH INCREASING INTERNATIONALIZATION OF THE TOKYO CAPITAL MARKET AND CONTINUED EXPANSION OF THE JAPANESE ECONOMY, ATTRACTIVE OPPORTUNITIES WILL BE AVAILABLE TO FOREIGN SECURITIES FIRMS WHO ARE WELL ESTABLISHED AND FULLY ABLE TO COMPETE IN THE JAPANESE MARKET. END UNCLASSIFIED.

5. UNCLASSIFIED AIRGRAM DOES NOT CONTAIN EMBASSY ASSESSMENT OF EXTENT TO WHICH FOREIGN FIRMS ARE AFFORDED NATIONAL TREATMENT AND CAN PENETRATE DOMESTIC SECURITIES MARKET. FOLLOWING IS EMBASSY ASSESSMENT WHICH SUPPLEMENTS TOKYO A-345.

6. FOREIGN SECURITIES FIRMS IN JAPAN (AS IS THE CASE WITH FOREIGN BANKS AND INSURANCE COMPANIES ALSO SUBJECT TO MOF CONTROL) ARE NOT AFFORDED NATIONAL TREATMENT IN ALL AREAS OF ACTIVITY. TWO BRANCHES OF U.S. FIRMS OPERATING HERE DO, HOWEVER, FEEL THEY ARE MAKING PROGRESS IN THEIR EFFORTS TO ACHIEVE BETTER TREATMENT, ESPECIALLY FROM THE MOF. THEY ALSO REALIZE THE IMPORTANCE OF CREATING AND MAINTAINING GOOD WORKING RELATIONSHIPS WITH THE LIMITED OFFICIAL USE

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BIG 4 JAPANESE SECURITIES FIRMS, SINCE THE SUCCESS OF A FOREIGN BRANCH IN JAPAN DEPENDS TO A GREAT EXTENT UPON GOODWILL, TRADE-OFFS IN BUSINESS RELATIONSHIPS AND A WILLINGNESS ON THE PART OF THE BIG 4 TO ALLOW COMPETITION TO FLOURISH. ALSO, U.S. BRANCHES IN JAPAN KNOW THEY WILL RECEIVE ASSISTANCE TO THE EXTENT THAT BIG 4 OPERATIONS IN THE U.S. AND EUROPE ARE LIKewise GRANTED COOPERATION AND ASSISTANCE.

7. DUE TO THE STRONG SENSE OF GROUP INTER-RELATIONSHIPS BETWEEN JAPANESE ENTERPRISES, HOWEVER, IT SEEMS UNLIKELY THAT FOREIGN FIRMS WILL MAKE STRONG INROADS INTO THE DOMESTIC JAPANESE SECURITIES INDUSTRY. AS A RESULT, OVER THE LONG RUN THE JAPANESE BIG 4 MAY STAND TO GAIN CONSIDERABLY MORE IN THEIR EFFORTS TO ESTABLISH THEMSELVES AS MAJOR COMPETITORS IN THE U.S. AND EUROPEAN MARKETS. THIS POSSIBILITY WOULD SEEM EVEN GREATER SHOULD THE U.S. SIMPLY ALLOW FOREIGN ACCESS TO THE NYSE IN THE NEAR FUTURE.
SHOESMITH

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